

City of Bad Axe, Michigan

**Financial Report
for the Fiscal Year ended
June 30, 2008**

Auditing Procedures Report

Instructions and MuniCodes

*=Required Fields

Reset Form

Issued under Public Act 2 of 1968, as amended. (V1.07)

Unit Name* City of Bad Axe	County* HURON	Type* CITY	MuniCode* 32-2-010
Opinion Date-Use Calendar* Oct 24, 2008	Audit Submitted-Use Calendar* Dec 3, 2008	Fiscal Year End Month* 06	Fiscal Year* 2008

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No."

<input checked="" type="checkbox"/> ?	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/> ?	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input type="checkbox"/> ?	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/> ?	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/> ?	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/> ?	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/> ?	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/> ?	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/> ?	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/> ?	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/> ?	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input checked="" type="checkbox"/> ?	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/> ?	13. Is the audit opinion unqualified? 14. If not, what type of opinion is it? NA
<input checked="" type="checkbox"/> ?	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/> ?	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/> ?	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input checked="" type="checkbox"/> ?	18. Are there reported deficiencies? 19. If so, was it attached to the audit report?

General Fund Revenue: ?	\$ 2,000,654.00
General Fund Expenditure: ?	\$ 1,722,963.00
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance: ?	\$ 1,391,765.00
Governmental Activities Long-Term Debt (see instructions): ?	\$ 834,459.00

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (reported deviations).

CPA (First Name)* Donald P.	Last Name* Kuzak	Ten Digit License Number* 1101007059		
CPA Street Address* 1242 Sand Beach Road	City* Bad Axe	State* MI	Zip Code* 48413	Telephone* +1 (989) 269-9541
CPA Firm Name* Hyzer, Hill, Kuzak & Co., P.C.	Unit's Street Address* 300 E. Huron Ave.	Unit's City* Bad Axe	Unit's Zip* 48413	

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HYZER, HILL, KUZAK & CO., P.C.

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Bruce Hill
Donald Kuzak
Michael Doerr

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Bad Axe, Michigan

We have audited the accompanying financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Bad Axe, Michigan as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Bad Axe, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Bad Axe, Michigan as of June 30, 2008 and the respective changes in the financial position and, where applicable, cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, retirement system schedule of funding progress and budgetary comparison information as identified in the table of contents are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Bad Axe, Michigan's basic financial statements. The accompanying other supplementary information as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hyzer, Hill, Hengst & Co P.C.

October 24, 2008

As management of the City of Bad Axe, Michigan, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$10,792,905 (*net assets*). Of this amount, \$4,894,437 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors
- The government's total net assets increased by \$596,237.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,036,932. Over seventy-one percent of this total amount or \$1,460,770 is *available for spending* at the government's discretion (*unrestricted fund balance*).
- At the end of the current fiscal year, unrestricted fund balance for the general fund was \$1,391,765 or eighty-one percent of total general fund expenditures.
- The City's total debt increased by \$255,416 during the fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction and overview to the City's basic financial statements.

The City's basic financial statements are made up of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected special assessments).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business type activities). The governmental activities of the City include general government (including administration), public safety, public works, economic development, and recreation and culture operations.

The government-wide financial statements can be found on pages 10 - 12 of this report.

Fund financial statements. A *fund* is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare this information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Local Street, Brick Street Assessment Funds, each of which are considered to be major funds. Data from the other seven governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 13 - 18 of this report.

Proprietary funds. The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business type activities* in the government-wide financial statements. The City uses enterprise funds to account for its sanitary sewer and water operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for motor pool operations. Because this service predominately benefits governmental rather than business type functions, it has been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the sewer and water operations, both of which are considered to be a major funds of the City. The equipment pool internal service fund is presented in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found on pages 19 - 22 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The only fund is the Tax Account. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 23 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 26 - 42 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees and the budgetary information for the three major governmental funds. This required supplemental information can be found on pages 43 - 47 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information. Combining, individual fund statements and schedules can be found on pages 48 - 57 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$10,792,905 at the close of the fiscal year.

A significant portion of the City's net assets (48% or \$5,163,240) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment); less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Of the remaining balance of net assets, approximately (7% or \$735,228) are restricted resources that are subject to external restrictions on how they may be used. The remaining *unrestricted net assets* (45% or \$4,894,437) may be used to meet the government's ongoing obligations to citizens and creditors. The table below shows the City's net assets as of June 30, 2008 and 2007.

City's Net Assets

	Governmental Activities		Business Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 3,139,818	\$ 2,881,883	\$ 3,053,887	\$ 3,231,895	\$ 6,193,705	\$ 6,113,778
Capital assets	3,368,681	3,551,778	10,380,425	9,709,856	13,749,106	13,261,634
Total assets	6,508,499	6,433,661	13,434,312	12,941,751	19,942,811	19,375,412
Long-term liabilities outstanding	634,245	830,447	7,405,011	6,958,634	8,039,256	7,789,081
Other liabilities	362,814	293,952	747,836	1,095,711	1,110,650	1,389,663
Total liabilities	997,059	1,124,399	8,152,847	8,054,345	9,149,906	9,178,744
Net assets:						
Invested in capital assets, net of related debt	2,650,817	2,711,270	2,512,423	2,219,914	5,163,240	4,931,184
Restricted	735,228	729,665	-	-	735,228	729,665
Unrestricted	2,125,395	1,868,327	2,769,042	2,667,492	4,894,437	4,535,819
Total net assets	\$ 5,511,440	\$ 5,309,262	\$ 5,281,465	\$ 4,887,406	\$ 10,792,905	\$ 10,196,668

Governmental activity current assets increased due to surpluses in the General Fund. Capital assets and long-term liabilities of the business type activities increased due to the City's wastewater treatment plant construction.

The City's net assets increased by \$596,237 during fiscal year 2008. Key elements of this increase are shown in the following table.

City's Change in Net Assets

	Governmental Activities		Business Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenue:						
Program revenue:						
Charges for services	\$ 201,576	\$ 185,424	\$ 2,246,836	\$ 2,284,585	\$ 2,448,412	\$ 2,470,009
Operating grants and contributions	365,936	354,836	-	-	365,936	354,836
General revenue:						
Property taxes	1,635,080	1,683,342	98,938	-	1,734,018	1,683,342
State sources	395,322	393,558	-	-	395,322	393,558
Special assessments	8,077	9,031	-	-	8,077	9,031
Investment earnings	89,693	83,400	121,873	106,680	211,566	190,080
Gain (loss) on disposals	6,707	785	(32,739)	-	(26,032)	785
Other	173,157	180,611	-	-	173,157	180,611
Total revenue	2,875,548	2,890,987	2,434,908	2,391,265	5,310,456	5,282,252
Expenses:						
General government	555,779	554,555	-	-	555,779	554,555
Public safety	846,068	814,439	-	-	846,068	814,439
Public works	752,016	734,259	-	-	752,016	734,259
Economic development	119,028	114,755	-	-	119,028	114,755
Recreation and cultural	238,060	246,954	-	-	238,060	246,954
Interest on long-term debt	38,419	45,815	174,580	102,506	212,999	148,321
Sewer and water	-	-	2,081,829	1,949,146	2,081,829	1,949,146
Total expenses	2,549,370	2,510,777	2,256,409	2,051,652	4,805,779	4,562,429
Net income before transfers and capital contributions	326,178	380,210	178,499	339,613	504,677	719,823
Transfer	(124,000)	-	124,000	-	-	-
Capital contributions	-	-	91,560	157,862	91,560	157,862
Change in net assets	202,178	380,210	394,059	497,475	596,237	877,685
Net assets, beginning of year	5,309,262	4,929,052	4,887,406	4,389,931	10,196,668	9,318,983
Net assets, end of year	\$ 5,511,440	\$ 5,309,262	\$ 5,281,465	\$ 4,887,406	\$ 10,792,905	\$ 10,196,668

Governmental Activities

Charges for services increased by \$16,152 due to higher contributions from Schools for police services but reduced equipment rentals to business type activities and lower revenues from parks and recreation programs. Property tax revenues declined because operating millages were allocated to business type activities in 2008.

Expenses increased by \$38,593 or 1.3%. Transfers of \$124,000 were made to the Sewer fund (a business type activity) in order to partially reduce the effect of increased expenses on user rates.

Business Type Activities

The business type activities consist of the City's water and sewer enterprise funds. The City's net assets from these activities increased by \$394,059 with net gains of \$314,881 resulting from the Sewer fund and \$79,178 coming from the Water fund. Revenues from user charges were consistent with 2007; however, during 2008 operating expenses increased due to higher depreciation and operating costs of the waste water treatment plant and related higher interest costs. The City partially funded these costs by allocating property taxes of \$99,000 to sewer operations and by providing subsidies (transfers) of \$124,000 from governmental activities.

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unrestricted fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,036,932, an increase of \$188,402 in comparison with the prior year. Seventy two percent (\$1,460,770) of this amount constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed to pay for specific capital projects, capital expenditures and debt service.

The General fund is the chief operating fund of the City. At the end of the fiscal year, the unreserved fund balance of the General fund was \$1,391,765. As a measure of the General fund's liquidity, it may be useful to compare unrestricted fund balance to total fund expenditures: unrestricted fund balance represents 76% of total General fund expenditures and transfers. The fund balance of the City's General fund increased by \$173,691 due to planned surpluses and expenditure controls. Fund balances of other major funds increased by \$54,253 due to surpluses in Local Street and Brick Street Assessment funds. Non major governmental funds include Major Street, County Road Millage, Parks and Recreation, Drug Law Enforcement, Rental Rehab, Park Improvement funds and Drain Debt Service funds. These funds experienced a \$51,001 decrease in fund balance due to transfers to the Local Street fund for street improvements.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of Sewer and Water funds at the end of the year amounted to \$2,769,042. The Sewer and Water funds had an increase in net assets for the year of \$394,059. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business type activities.

The Equipment Rental Internal Service fund has unrestricted net assets of \$796,229. Total net assets increased by \$53,318 during the current fiscal year.

General Fund Budgetary Highlights

The original budget was amended for higher than expected State shared revenues, investment income and other income (from contributions). Expenditure budgets were amended to reflect an operating transfer (subsidy) of \$104,000 to the Sewer fund. Total spending was \$68,552 lower than final budgeted amounts due to cost containment efforts.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business type activities as of June 30, 2008, amounted to \$13,749,106. This investment in capital assets includes land, buildings and improvements, systems, equipment, and infrastructure. The total increase in the City's investment in capital assets for the fiscal year was \$487,472.

Major capital asset expenditures during the fiscal year included the following:

- Wastewater treatment plant improvements
- Paving and street reconstruction
- Painting of water tower

The table below shows the City's Capital Assets as of June 30, 2008 and 2007.

City's Capital Assets

(net of depreciation)

	Governmental Activities		Business Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$ 456,148	\$ 453,148	\$ -	\$ -	\$ 456,148	\$ 453,148
Buildings and improvements	650,126	647,893	-	-	650,126	647,893
Systems	-	-	10,380,425	3,987,288	10,380,425	3,987,288
Equipment	125,316	181,765	-	-	125,316	181,765
Infrastructure	2,137,091	2,268,972	-	-	2,137,091	2,268,972
Constuction in progress	-	-	-	5,722,568	-	5,722,568
Total net assets	\$ 3,368,681	\$ 3,551,778	\$ 10,380,425	\$ 9,709,856	\$ 13,749,106	\$ 13,261,634

Additional information on the City's capital assets can be found in Note 5 on pages 33 - 34 of this report.

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of \$8,585,866. These amounts are summarized below.

City's Outstanding Debt

General Obligation and Revenue Bonds

	Governmental Activities		Business Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Drain assessments	\$ 349,132	\$ 408,459	\$ -	\$ -	\$ 349,132	\$ 408,459
Revenue/Special assessment bonds	-	-	7,868,002	7,489,942	7,868,002	7,489,942
Installment contracts	245,352	291,851	-	-	245,352	291,851
Land contracts	123,380	140,198	-	-	123,380	140,198
Total net assets	\$ 717,864	\$ 840,508	\$ 7,868,002	\$ 7,489,942	\$ 8,585,866	\$ 8,330,450

The City's total debt increased by \$255,416 during the current fiscal year. The City had new debt of \$909,355 for the wastewater treatment plant improvements.

Additional information on the City's long-term debt can be found in Note 8 on pages 37 - 39 of this report.

Economic Factors and Next Year's Budgets and Rates

- Governmental fund budgets for the fiscal year ending June 30, 2009 anticipate an overall deficit of \$ 36,874. The majority of this amount will be due to the fact the General Fund is expected to incur a \$98,000 deficit, Street funds are budgeting a \$33,000 surplus and the Drain debt service fund is budgeting a \$16,000 surplus.
- Water and Sewer user rates will increase slightly for fiscal year 2009. These funds may incur losses of \$142,000 during 2009 which will be financed by available surpluses.
- The 2009 budget is based on total property tax levies of 18.56 mills which is the same millage levied in 2008.
- The City's governmental fund balances are expected to total \$1,917,005 which represents about 73% of the budgeted expenditures of those funds for 2009.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Kay Goebel, City Clerk, 300 E. Huron Avenue, Bad Axe, MI 48413.

Basic Financial Statements

Statement of Net Assets
June 30, 2008

	Primary Government			Component Units
	Governmental Activities	Business Type Activities	Total	
ASSETS:				
Cash and cash equivalents	\$ 2,435,674	\$ 919,949	\$ 3,355,623	\$ 66,289
Cash not qualifying as cash equivalents	464,743	1,588,158	2,052,901	101,690
Receivables, net of allowance	174,358	316,534	490,892	-
Special assessments	159,066	-	159,066	-
Internal balances	(152,817)	152,817	-	-
Due from fiduciary fund	753	-	753	-
Deferred charges	-	76,373	76,373	-
Prepays	58,041	56	58,097	-
Capital assets, net	3,368,681	10,380,425	13,749,106	-
Total assets	6,508,499	13,434,312	19,942,811	167,979
LIABILITIES:				
Accounts payable	64,926	236,794	301,720	96,810
Accrued payroll and liabilities	81,095	16,059	97,154	-
Accrued interest	15,079	31,992	47,071	-
Deferred revenue	1,500	-	1,500	-
Noncurrent liabilities:				
Due within one year	200,214	462,991	663,205	-
Due in more than one year	634,245	7,405,011	8,039,256	-
Total liabilities	997,059	8,152,847	9,149,906	96,810
NET ASSETS:				
Investment in capital assets, net	3,368,681	2,512,423	5,881,104	-
Restricted:				
Capital projects	192,435	-	192,435	-
Debt service	114,142	-	114,142	-
Other purposes	428,651	-	428,651	-
Unrestricted	1,407,531	2,769,042	4,176,573	71,169
Total net assets	\$ 5,511,440	\$ 5,281,465	\$ 10,792,905	\$ 71,169

The notes to financial statements are an integral part of this statement.

City of Bad Axe, Michigan

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 555,779	\$ 34,152	\$ -	\$ -
Public safety	846,068	50,939	2,100	-
Public works	752,016	48,295	265,083	-
Economic development	119,028	3,050	93,711	-
Recreation and cultural	238,060	65,140	5,042	-
Interest on long-term debt	38,419	-	-	-
Total governmental activities	2,549,370	201,576	365,936	-
Business type activities:				
Sewer	959,404	1,145,102	-	-
Water	1,122,425	1,101,734	-	91,560
Interest on long-term debt	174,580	-	-	-
Total business type activities	2,256,409	2,246,836	-	91,560
Total primary government	\$ 4,805,779	\$ 2,448,412	\$ 365,936	\$ 91,560
Component units:				
Economic Development Corporation	\$ -	\$ -	\$ -	\$ -
Downtown Development Authority	48,808	-	-	-
Total component units	\$ 48,808	\$ -	\$ -	\$ -
General revenues:				
Property taxes				
State sources				
Special assessments				
Unrestricted investment income				
Gain (loss) on disposal of equipment				
Miscellaneous				
Transfers				
Total general revenues				
Change in net assets				
Net assets, beginning of year (as restated)				
Net assets, end of year				

The notes to financial statements are an integral part of this statement.

Statement of Activities
Year Ended June 30, 2008

<u>Net (Expense) Revenue and Change in Net Assets</u>			
<u>Primary Government</u>		<u>Total</u>	<u>Component Units</u>
<u>Governmental Activities</u>	<u>Business Type Activities</u>		
\$ (521,627)	\$ -	\$ (521,627)	\$ -
(793,029)	-	(793,029)	-
(438,638)	-	(438,638)	-
(22,267)	-	(22,267)	-
(167,878)	-	(167,878)	-
(38,419)	-	(38,419)	-
<u>(1,981,858)</u>	<u>-</u>	<u>(1,981,858)</u>	<u>-</u>
-	185,698	185,698	-
-	70,869	70,869	-
-	(174,580)	(174,580)	-
<u>-</u>	<u>81,987</u>	<u>81,987</u>	<u>-</u>
<u>(1,981,858)</u>	<u>81,987</u>	<u>(1,899,871)</u>	<u>-</u>
-	-	-	-
-	-	-	(48,808)
-	-	-	(48,808)
1,635,080	98,938	1,734,018	61,488
395,322	-	395,322	-
8,077	-	8,077	-
89,693	121,873	211,566	5,933
6,707	(32,739)	(26,032)	-
173,157	-	173,157	-
(124,000)	124,000	-	-
<u>2,184,036</u>	<u>312,072</u>	<u>2,496,108</u>	<u>67,421</u>
202,178	394,059	596,237	18,613
<u>5,309,262</u>	<u>4,887,406</u>	<u>10,196,668</u>	<u>52,556</u>
<u>\$ 5,511,440</u>	<u>\$ 5,281,465</u>	<u>\$ 10,792,905</u>	<u>\$ 71,169</u>

The notes to financial statements are an integral part of this statement.

	Major Funds		
	General	Local Street	Brick Street Assessment
ASSETS			
Assets			
Cash and cash equivalents	\$ 1,502,285	\$ 146,620	\$ 4,535
Cash not qualifying as cash equivalents	-	-	-
Receivables:			
Other governmental units	133,637	22,151	-
Special assessments	-	-	159,066
Due from other funds	16,520	-	-
Prepays	58,029	-	-
Total assets	<u>\$ 1,710,471</u>	<u>\$ 168,771</u>	<u>\$ 163,601</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$ 45,901	\$ 2,994	\$ -
Accrued payroll and liabilities	58,072	5,047	-
Due to other funds	213,233	7,407	-
Deferred revenue	1,500	-	159,066
Total liabilities	318,706	15,448	159,066
Fund Balances			
Reserved:			
Capital projects	-	-	4,535
Debt service	-	-	-
Other purposes	-	153,323	-
Unreserved	1,391,765	-	-
Total fund balances	<u>1,391,765</u>	<u>153,323</u>	<u>4,535</u>
Total liabilities and fund balances	<u>\$ 1,710,471</u>	<u>\$ 168,771</u>	<u>\$ 163,601</u>

Governmental Funds
Balance Sheet
June 30, 2008

Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 429,256	\$ 2,082,696
14,114	14,114
15,654	171,442
-	159,066
60,416	76,936
12	58,041
<u>\$ 519,452</u>	<u>\$ 2,562,295</u>
\$ 5,945	\$ 54,840
17,976	81,095
8,222	228,862
-	160,566
<u>32,143</u>	<u>525,363</u>
28,834	33,369
114,142	114,142
275,328	428,651
69,005	1,460,770
<u>487,309</u>	<u>2,036,932</u>
<u>\$ 519,452</u>	<u>\$ 2,562,295</u>

The notes to financial statements are an integral part of this statement.

**Reconciliation of Fund Balance on the Balance Sheet for
Governmental Funds to Net Assets of Governmental Activities
on the Statement of Net Assets
June 30, 2008**

Fund balance, total governmental funds		\$ 2,036,932
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Capital assets	6,669,633	
Accumulated depreciation	<u>(3,403,170)</u>	3,266,463
Long-term receivables such as special assessments are expected to be collected over several years in the governmental funds and are not available to pay for current year expenditures.		159,066
Internal Service Fund used by management to charge cost of equipment used. The assets and liabilities of the internal service fund are included in the governmental activities statement of net assets.		898,517
Long-term liabilities are not due and payable in the current period and are not reported in the funds.		
Drain assessments	(349,132)	
Notes payable	(368,732)	
Accrued interest payable	(15,079)	
Accrued compensated absence	<u>(116,595)</u>	<u>(849,538)</u>
Net assets, governmental activities		<u>\$ 5,511,440</u>

City of Bad Axe, Michigan

	Major Funds		
	General	Local Street	Brick Street Assessment
Revenues:			
Property taxes	\$ 1,319,974	\$ 47,203	\$ -
Licenses and permits	30,050	-	-
Federal sources	-	-	-
State sources	397,422	70,748	-
Charges for services	3,050	-	-
Special assessments	-	-	31,755
Fines and forfeitures	7,358	-	-
Interest income	41,373	1,817	2,099
Rental income	4,102	-	-
Miscellaneous	197,325	1,860	-
Total revenues	2,000,654	121,628	33,854
Expenditures:			
General government	507,283	-	-
Public safety	842,982	-	-
Public works	249,667	255,314	-
Economic development	25,317	-	-
Recreation and cultural	72,638	-	-
Debt service:			
Principal	16,818	-	24,600
Interest and charges	8,258	-	6,002
Total expenditures	1,722,963	255,314	30,602
Excess of revenues over (under) expenditures	277,691	(133,686)	3,252
Other financing sources (uses):			
Transfers in	-	184,687	-
Transfers out	(104,000)	-	-
Total other financing sources (uses)	(104,000)	184,687	-
Excess of revenues and other financing sources over (under) expenditures and other financing uses	173,691	51,001	3,252
Fund balance, beginning of year	1,218,074	102,322	1,283
Fund balance, end of year	\$ 1,391,765	\$ 153,323	\$ 4,535

The notes to financial statements are an integral part of this statement.

Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended June 30, 2008

Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 267,903	\$ 1,635,080
-	30,050
98,753	98,753
194,335	662,505
46,264	49,314
-	31,755
3,581	10,939
12,642	57,931
18,876	22,978
54,850	254,035
697,204	2,853,340
-	507,283
1,333	844,315
154,187	659,168
93,711	119,028
216,758	289,396
59,327	100,745
26,743	41,003
552,059	2,560,938
145,145	292,402
-	184,687
(184,687)	(288,687)
(184,687)	(104,000)
(39,542)	188,402
526,851	1,848,530
\$ 487,309	\$ 2,036,932

The notes to financial statements are an integral part of this statement.

**Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balance of the Governmental Funds
to the Statement of Activities
Year Ended June 30, 2008**

Net change in fund balance, total governmental funds		\$ 188,402
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets are allocated over their estimated useful lives and reported as depreciation expense.</p>		
Capital outlay	134,943	
Depreciation expense	<u>(272,166)</u>	(137,223)
<p>Revenue, such as special assessment revenue, reported in the statement of activities in previous years did not provide current financial resources in the governmental funds until the current year.</p>		
		(23,678)
<p>Internal service fund used by management to charge costs of equipment used. The net revenues (expenses) attributable to this fund is reported with governmental activities.</p>		
		53,318
<p>The issuance of long-term debt (e.g. bonds and notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources to governmental funds. Neither transaction, however, has any effect on net assets.</p>		
Principal payments on long term liabilities		122,644
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.</p>		
Decrease in accrued interest payable	2,584	
Increase in accrued compensated absences	<u>(3,869)</u>	<u>(1,285)</u>
Change in net assets, governmental activities		<u>\$ 202,178</u>

City of Bad Axe, Michigan

**Proprietary Funds
Statement of Net Assets
June 30, 2008**

	Major Funds		Total Enterprise Funds	Governmental Activities
	Sewer	Water		Internal Service Fund
Assets:				
Current assets:				
Cash and cash equivalents	\$ 721,314	\$ 198,635	\$ 919,949	\$ 352,978
Cash not qualifying as cash equivalents	-	1,588,158	1,588,158	450,629
Receivables:				
Interest and accounts	155,528	145,510	301,038	2,916
Other governmental units	15,496	-	15,496	-
Due from other funds	117,408	36,945	154,353	-
Prepays	45	11	56	-
Total current assets	1,009,791	1,969,259	2,979,050	806,523
Non-current assets:				
Deferred charges	72,361	4,012	76,373	-
Capital assets, net	9,189,915	1,190,510	10,380,425	102,218
Total non-current assets	9,262,276	1,194,522	10,456,798	102,218
Total assets	10,272,067	3,163,781	13,435,848	908,741
Liabilities:				
Current liabilities:				
Accounts payable	30,206	206,588	236,794	10,086
Accrued payroll and liabilities	12,683	3,376	16,059	-
Accrued interest	31,225	767	31,992	-
Due to other funds	-	1,536	1,536	138
General obligation bonds	441,886	21,105	462,991	-
Total current liabilities	516,000	233,372	749,372	10,224
Long-term liabilities (net of current portion):				
General obligation bonds	7,238,251	166,760	7,405,011	-
Total liabilities	7,754,251	400,132	8,154,383	10,224
Net assets:				
Investment in capital assets, net	1,509,778	1,002,645	2,512,423	102,218
Unrestricted:				
Designated:				
Other purposes	-	77,008	77,008	-
Undesignated	1,008,038	1,683,996	2,692,034	796,299
Total net assets	\$ 2,517,816	\$ 2,763,649	\$ 5,281,465	\$ 898,517

The notes to financial statements are an integral part of this statement.

Proprietary Funds
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2008

	Major Funds		Total Enterprise Funds	Governmental Activities Internal Service Fund
	Sewer	Water		
Operating revenues:				
Waste collection fees	\$ 138,937	\$ -	\$ 138,937	\$ -
Water usage fees	-	1,072,374	1,072,374	-
Sewer usage fees	996,993	-	996,993	-
Equipment rentals	-	-	-	240,635
Permits and tap fees	3,808	3,680	7,488	-
Other	5,364	25,680	31,044	57
Total operating revenues	1,145,102	1,101,734	2,246,836	240,692
Operating Expenses:				
Cost of waste collection	138,352	-	138,352	-
Cost of water operations	-	1,003,375	1,003,375	-
Cost of sewage treatment	453,375	-	453,375	-
Operations and maintenance	-	-	-	122,862
Depreciation	325,288	73,555	398,843	59,441
General and administrative	42,389	45,495	87,884	23,540
Total operating expenses	959,404	1,122,425	2,081,829	205,843
Operating income (loss)	185,698	(20,691)	165,007	34,849
Non-operating revenues (expenses):				
Property taxes	98,938	-	98,938	-
Interest income	34,272	87,601	121,873	31,762
Interest expense	(163,288)	(11,292)	(174,580)	-
Gain (loss) on disposal of equipment	(32,739)	-	(32,739)	6,707
Total non-operating revenue (expenses)	(62,817)	76,309	13,492	38,469
Net income before contributions and transfers	122,881	55,618	178,499	73,318
Capital contributions	-	91,560	91,560	-
Operating transfers in (out)	192,000	(68,000)	124,000	(20,000)
Change in net assets	314,881	79,178	394,059	53,318
Net assets, beginning of year	2,202,935	2,684,471	4,887,406	845,199
Net assets, end of year	\$ 2,517,816	\$ 2,763,649	\$ 5,281,465	\$ 898,517

The notes to financial statements are an integral part of this statement.

City of Bad Axe, Michigan

**Proprietary Funds
Statement of Cash Flows
For the Year Ended June 30, 2008**

	Major Funds		Total Enterprise Funds	Governmental Activities Internal Service Fund
	Sewer	Water		
Cash flows from operating activities:				
Receipts from customers	\$ 1,147,695	\$ 1,095,567	\$ 2,243,262	\$ 281,483
Payments to employees	(183,701)	(76,848)	(260,549)	(12,464)
Payments to suppliers	(433,331)	(848,322)	(1,281,653)	(147,935)
Net cash provided by operating activities	530,663	170,397	701,060	121,084
Cash flows from noncapital financing activities:				
Property taxes	98,938	-	98,938	-
Interfund activity	(39,225)	6,639	(32,586)	(20,000)
Net cash provided (used) by noncapital financing activities	59,713	6,639	66,352	(20,000)
Cash flows from capital and related financing activities:				
Proceeds on disposal of equipment	-	-	-	6,707
Acquisition and construction of capital assets	(974,273)	(98,180)	(1,072,453)	(13,567)
Capital charges	-	590	590	-
Bond proceeds	909,355	-	909,355	-
Principal paid on bond debt and leases	(504,500)	(30,500)	(535,000)	-
Interest paid on bond debt and leases	(126,863)	(10,121)	(136,984)	-
Net cash used by capital and related financing activities	(696,281)	(138,211)	(834,492)	(6,860)
Cash flows from investing activities:				
Investment income	34,272	87,601	121,873	31,762
Purchases of investments	-	(1,865,708)	(1,865,708)	(21,371)
Maturity of investments	-	1,688,556	1,688,556	-
Net cash provided (used) by investing activities	34,272	(89,551)	(55,279)	10,391
Net increase (decrease) in cash and cash equivalents	(71,633)	(50,726)	(122,359)	104,615
Cash and cash equivalents, beginning of year	792,947	249,361	1,042,308	248,363
Cash and cash equivalents, end of year	<u>\$ 721,314</u>	<u>\$ 198,635</u>	<u>\$ 919,949</u>	<u>\$ 352,978</u>
Non-cash transactions:				
Water lines donated by users		<u>\$ 90,970</u>		

The notes to financial statements are an integral part of this statement.

Proprietary Funds
Statement of Cash Flows
For the Year Ended June 30, 2008
(Continued)

	Major Funds		Total Enterprise Funds	Governmental Activities Internal Service Fund
	Sewer	Water		
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss) for the year	\$ 185,698	\$ (20,691)	165,007	\$ 34,849
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation expense	325,288	73,555	398,843	59,441
Change in assets and liabilities:				
Receivables	2,593	(6,167)	(3,574)	(2,916)
Due from other funds	-	-	-	43,707
Prepays	(45)	(11)	(56)	-
Accounts payable	16,916	128,764	145,680	2,742
Accrued and other liabilities	213	(5,053)	(4,840)	(136)
Due to other funds	-	-	-	(16,603)
Net cash provided by operating activities	<u>\$ 530,663</u>	<u>\$ 170,397</u>	<u>\$ 701,060</u>	<u>\$ 121,084</u>

Fiduciary Funds
Statement of Net Assets
June 30, 2008

	Current Tax Collection
Assets	
Cash and cash equivalents	<u>\$ 753</u>
Liabilities	
Due to other funds	<u>\$ 753</u>

Discretely Presented Component Units
Combining Statement of Net Assets
June 30, 2008

	<u>Economic Development Corporation</u>	<u>Downtown Development Authority</u>	<u>Total</u>
Assets:			
Cash and cash equivalents	\$ -	\$ 66,289	\$ 66,289
Cash not qualifying as cash equivalents	<u>4,286</u>	<u>97,404</u>	<u>101,690</u>
Total assets	4,286	163,693	167,979
Liabilities:			
Accounts payable	<u>-</u>	<u>96,810</u>	<u>96,810</u>
Net assets:			
Unrestricted	<u>4,286</u>	<u>66,883</u>	<u>71,169</u>
Total net assets	<u>\$ 4,286</u>	<u>\$ 66,883</u>	<u>\$ 71,169</u>

**Discretely Presented Component Units
Combining Statement of Activities
For the Year Ended June 30, 2008**

		Net Expenses and Change in Net Assets		
	Expenses	Economic Development Corporation	Downtown Development Authority	Total
Governmental activities:				
Public works	\$ 22,054	\$ -	\$ (22,054)	\$ (22,054)
Debt service	26,754	-	(26,754)	(26,754)
Total governmental activities	<u>\$ 48,808</u>	-	(48,808)	(48,808)
General revenue:				
Property taxes		-	61,488	61,488
Unrestricted investment income		158	5,775	5,933
Total general revenue		<u>158</u>	<u>67,263</u>	<u>67,421</u>
Change in net assets		158	18,455	18,613
Net assets, beginning of year (as restated)		<u>4,128</u>	<u>48,428</u>	<u>52,556</u>
Net assets, end of year		<u>\$ 4,286</u>	<u>\$ 66,883</u>	<u>\$ 71,169</u>

Notes To Financial Statements

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the City of Bad Axe, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Bad Axe, Michigan:

Reporting Entity

The City of Bad Axe, Michigan is governed by an elected mayor and six-member council. The City is located in Huron County, Michigan, and has approximately 3,500 residents. Services provided to City residents include law enforcement, community enrichment and development, and human services. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. As defined by GASB Statement 14, component units are legally separate entities that are included in the City's reporting entity because of the significance of their operating or financial relationships with the City. The discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City.

Discretely Presented Component Units - The discretely presented component units' column in the combined financial statements include the financial data of the City's component units. The governing bodies of these component units are appointed by the City Council.

- a. The City of Bad Axe Downtown Development Authority (DDA) is a legally separate entity which promotes the economic growth of the business district of which it is composed.
- b. The City of Bad Axe Economic Development Corporation (EDC) is a legally separate entity which provides economic development assistance to businesses in the City.

Administrative Offices

City of Bad Axe Downtown Development Authority
300 East Huron Avenue
Bad Axe, MI 48413

City of Bad Axe Economic Development Corporation
300 East Huron Avenue
Bad Axe, MI 48413

The City participates in a cooperative unit with the Bad Axe Fire Protection Association and the Central Huron Ambulance Service Association. See Note 12 entitled "Joint Ventures" for specific disclosures. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit, but are discussed in these notes because of the nature of their relationship with the City.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. The effect of interfund activity has been removed from these statements.

Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the discretely presented component units for which the City is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function (governmental activities) or identifiable activities (business type activities) are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenues susceptible to accrual include property taxes, intergovernmental revenue, special assessments collected in the current fiscal period, and interest. All other revenue items are considered available only when cash is received. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The City reports the following major governmental funds:

- The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Local Street Fund accounts for the construction, maintenance, and repairs of all streets classified as "local streets" within the City. Financing is provided primarily by property taxes and State-shared gas and weight taxes.
- The Brick Street Assessment Fund is used to account for the construction activity for local improvements that benefit property owners.

The City reports the following major enterprise funds:

- The Sewer Fund accounts for the activity of the sewage collection system administered by the City.
- The Water Fund accounts for the activity of the water distribution system administered by the City.

Additionally, the City reports the following fund types:

- The Internal Service Fund is used to account for the charges for equipment rental to funds and departments.
- The Agency Funds account for assets held by the City in a trustee capacity or as an agent for individuals, organizations, or other governments.

Private sector standards of accounting issued before December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to apply private sector standards issued after November 30, 1989 for its Enterprise Funds.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes and interest income.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer enterprise funds and of the City's internal service funds are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities and Net Assets or Equity

Cash and Investments – Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with an original maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables – In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business type activities are reported in the government-wide financial statements as "internal balances."

Property Taxes – Property taxes are assessed as of December 31. The related property taxes are billed on December 1 of the following year and become a lien at that time. These taxes are payable at the City until February 15 without penalty. The final collection date by the City Treasurer is February 28 before they are added to the County tax rolls.

Inventories – Inventories of governmental funds are recorded as expenditures when purchased.

Capital Assets – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The City has adopted the policy of capitalizing net interest costs on funds borrowed to finance the construction of proprietary fund fixed assets.

Interest incurred during the construction of capital assets of business type activities is included as part of the capitalized value of the assets constructed. During the current year, approximately \$43,066 of interest expense was capitalized as part of the cost of assets under construction.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Drains	20 years
Roads and sidewalks	20 years
Land improvements	15 – 40 years
Buildings and building improvements	30 years
Vehicles	5 years
Machinery and equipment	7 – 20 years
Office equipment and furniture	5 – 10 years
Water and sewer distribution systems	20 – 40 years

Compensated Absences – It is the City's policy to permit employees to accumulate earned but unused sick pay benefits, up to a maximum of 960 hours. Any hours in excess of the maximum is paid to the employees at a 50% rate, up to 40 hours. Upon termination of employment, City employees receive up to 50% of their sick pay accumulations depending upon years of service. Unused employee vacation time is paid to employees annually on their anniversary date or contract date. The government-wide and proprietary statements accrue all vacation and personal pay as it is earned and sick pay as it is used or vested (whichever is earlier). A liability for these amounts is reported in governmental funds as it comes due for payment generally when the time is taken off, or employees terminate.

Long-term Obligations – In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business type activities, or proprietary fund statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bond discounts are presented as a reduction of the face amount of bonds payable. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2 – Stewardship, Compliance and Accountability

The City Charter establishes the fiscal year as the twelve-month period beginning July 1. In April, the departments submit to the City Manager a budget of estimated expenditures for the ensuing fiscal year. The City Manager submits a budget of estimated expenditures and revenues by the second regular City Council meeting in May. The City Council, subsequently, holds a budget hearing on the proposed budget at the first meeting in June.

The City Council legally enacts the budget at its second meeting in June through the passage of a budget resolution. The City Manager is authorized to make budgetary transfers within the appropriation centers and funds. All fund budgets are adopted at the departmental level for appropriation centers. Appropriations lapse at the end of each fiscal year.

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the City's actual expenditures and budget expenditures for budgetary funds have been shown on a functional basis. The budget approved by the Council for the City's General, Special Revenue and Proprietary Funds were adopted at the departmental level. Budgets approved for the City's Debt Service and Component Unit Funds are adopted at the total expenditure level. The budgets were amended during the last quarter of the year to reflect certain changes in expenditure levels.

Excess of Expenditures over Appropriations in Budgeted Funds

During the year, the City incurred expenditures at the budgetary center level over budget as follows:

<u>Fund</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Excess</u>
Primary government:			
General fund:			
Economic development	\$ 24,700	\$ 25,317	\$ 617
Special revenue funds:			
Local street			
Public works	253,642	255,314	1,672
Major street			
Transfers out	72,000	74,687	2,687
Parks and recreation			
Recreational and cultural	200,659	216,758	16,099
Drug law enforcement			
Public safety	976	1,333	357
Component units:			
Downtown Development Authority			
Debt service	26,755	111,525	84,770

Note 3 – Receivables

Receivables as of June 30, 2008 were as follows:

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Component Units</u>
Accounts, net of allowance for uncollectibles of \$3,000	\$ -	\$ 301,038	\$ -
Due from other governments	174,358	15,496	-
Special assessments:			
Due within one year	40,679	-	-
Due in more than one year	118,387	-	-
Total	<u><u>\$ 333,424</u></u>	<u><u>\$ 316,534</u></u>	<u><u>\$ -</u></u>

Note 4 - Deposits and Investments

Michigan Compiled Laws, Section 129.91 authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The investment policy adopted by the Board has authorized investments to those listed under the State's statutory authority as noted above. The City's deposits and investments are in accordance with statutory authority, except for certificate of deposits of \$1,061,014 located in banks outside the State of Michigan.

At year end, the City's cash and investments were reported in the accompanying financial statements in the following categories:

	Governmental Activities	Business Type Activities	Total Primary Government	Fiduciary Funds	Component Units
Cash and cash equivalents	\$ 2,435,674	\$ 919,949	\$ 3,355,623	\$ 753	\$ 66,289
Cash not qualifying as cash equivalents	464,743	1,588,158	2,052,901	-	101,690
Total	\$ 2,900,417	\$ 2,508,107	\$ 5,408,524	\$ 753	\$ 167,979
	Governmental Activities	Business Type Activities	Total Primary Government	Fiduciary Funds	Component Units
Cash on hand	\$ 350	\$ 25	\$ 375	\$ 300	\$ -
Demand deposits	2,900,067	2,507,588	5,407,655	453	169,979
Investment pools	-	494	494	-	-
Total	\$ 2,900,417	\$ 2,508,107	\$ 5,408,524	\$ 753	\$ 169,979

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. The City does not have a deposit policy for custodial credit risk. At year end, the City's primary government, fiduciary funds and component units had \$4,096,597 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk - Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the City does not have a policy for investment custodial credit risk. On the investment listed below, there is no custodial credit risk, as this investment is uncategorized as to credit risk.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Credit Rating</u>
Business Type Activities		
Investment pools		
Independent Financial Services	\$ 494	N/A

Interest Rate Risk

State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

State law limits investments to specific government securities, certificates of deposit and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on investment credit risk. None of the City's investments were subject to credit risk ratings.

Concentration of Credit Risk

State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments in the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

Note 5 – Capital Assets

Capital asset activity of the City's governmental and business type activities was as follows:

	<u>Balance</u> <u>June 30, 2007</u>	<u>Additions</u>	<u>Transfers</u>	<u>Disposals &</u> <u>Adjustments</u>	<u>Balance</u> <u>June 30, 2008</u>
Governmental activities:					
Primary government:					
Capital assets not being depreciated:					
Land	\$ 446,148	\$ 3,000	\$ 7,000	\$ -	\$ 456,148
Capital assets being depreciated:					
Drains	1,523,525	-	-	-	1,523,525
Roads	2,049,149	90,817	-	-	2,139,966
Streetscape improvements	1,026,049	-	-	-	1,026,049
Buildings and improvements	583,488	3,465	457,918	-	1,044,871
Land improvements	266,465	37,660	-	-	304,125
Machinery and equipment	846,264	13,568	-	(23,529)	836,303
Vehicles	411,444	-	-	(19,890)	391,554
Subtotal	6,706,384	145,510	457,918	(43,419)	7,266,393
Accumulated depreciation:					
Drains	958,274	76,176	-	-	1,034,450
Roads	813,038	95,219	-	-	908,257
Streetscape improvements	558,439	51,303	-	-	609,742
Buildings and improvements	279,505	25,006	278,886	-	583,397
Land improvements	101,587	13,886	-	-	115,473
Machinery and equipment	735,363	42,448	-	(23,529)	754,282
Vehicles	340,580	27,569	-	(19,890)	348,259
Subtotal	3,786,786	331,607	278,886	(43,419)	4,353,860
Net capital assets being depreciated	2,919,598	(186,097)	179,032	-	2,912,533
Capital assets, net	<u>\$ 3,365,746</u>	<u>\$ (183,097)</u>	<u>\$ 186,032</u>	<u>\$ -</u>	<u>\$ 3,368,681</u>

Notes to Financial Statements
June 30, 2008
(Continued)

	<u>Balance</u> <u>June 30, 2007</u>	<u>Additions</u>	<u>Transfers</u>	<u>Disposals &</u> <u>Adjustments</u>	<u>Balance</u> <u>June 30, 2008</u>
Business type activities:					
Capital assets not being depreciated:					
Construction in progress	\$ 5,722,568	\$ 908,026	\$ (6,630,594)	\$ -	\$ -
Capital assets being depreciated:					
Sewer system	6,451,240	4,975	6,630,594	(781,736)	12,305,073
Water system	<u>2,008,066</u>	<u>189,150</u>	<u>-</u>	<u>(97,667)</u>	<u>2,099,549</u>
Subtotal	8,459,306	194,125	6,630,594	(879,403)	14,404,622
Accumulated depreciation:					
Sewer system	3,538,867	325,288	-	(748,997)	3,115,158
Water system	<u>933,151</u>	<u>73,555</u>	<u>-</u>	<u>(97,667)</u>	<u>909,039</u>
Subtotal	<u>4,472,018</u>	<u>398,843</u>	<u>-</u>	<u>(846,664)</u>	<u>4,024,197</u>
Net capital assets being depreciated	<u>3,987,288</u>	<u>(204,718)</u>	<u>6,630,594</u>	<u>(32,739)</u>	<u>10,380,425</u>
Capital assets, net	<u>9,709,856</u>	<u>703,308</u>	<u>-</u>	<u>(32,739)</u>	<u>10,380,425</u>
Total primary government	<u>\$ 13,075,602</u>	<u>\$ 520,211</u>	<u>\$ 186,032</u>	<u>\$ (32,739)</u>	<u>\$ 13,749,106</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 49,469
Public safety	21,715
Public works	257,380
Recreation and cultural	<u>3,043</u>
Total governmental activities	<u>\$ 331,607</u>
Business type activities:	
Sewer system	\$ 325,288
Water system	<u>73,555</u>
Total business type activities	<u>\$ 398,843</u>

Note 6 – Interfund Receivables, Payables, and Transfers

The interfund balances are comprised of the following:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General fund:		
Operations	\$ 16,520	\$ 213,233
Special revenue funds:		
Major Street	-	7,847
Local Street	-	7,407
Parks and Recreation	60,364	375
Drain Debt	52	-
	<u>60,416</u>	<u>15,629</u>
Enterprise funds:		
Sewer	117,408	-
Water	36,945	1,536
	<u>154,353</u>	<u>1,536</u>
Internal service funds:		
Motor Vehicle Equipment	-	138
Agency funds:		
Tax	<u>-</u>	<u>753</u>
	<u><u>\$ 231,289</u></u>	<u><u>\$ 231,289</u></u>

Interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund transfers are comprised of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>	
General fund:			
Operations	\$ -	\$ 104,000	(a)
Special revenue funds:			
Major Street	-	74,687	(b)
Local Street	184,687	-	(b) & (c)
County Road Millage	-	110,000	(c)
	<u>184,687</u>	<u>184,687</u>	
Enterprise funds:			
Sewer	192,000	-	(a)
Water	-	68,000	(a)
	<u>192,000</u>	<u>68,000</u>	
Internal service fund:			
Motor vehicle equipment	-	20,000	(a)
	<u>\$ 376,687</u>	<u>\$ 376,687</u>	

(a) Transfer for debt service

(b) Allowable transfer under Act 51 in the amount of \$74,687

(c) Transfer for capital improvements

Note 7 – Payables

Accounts payable and accrued liabilities in the primary government are as follows:

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Component Units</u>
Accounts	\$ 64,926	\$ 236,794	\$ 96,810
Wages, fringe benefits and other accrued liabilities	81,095	16,059	-
Accrued interest payable	<u>15,079</u>	<u>31,992</u>	<u>-</u>
Total	<u>\$ 161,100</u>	<u>\$ 284,845</u>	<u>\$ 96,810</u>

Note 8 – Long-Term Debt

A summary of changes in long-term debt is as follows:

	Balance June 30, 2007	Additions (Retirements)	Balance June 30, 2008	Due Within One Year
Governmental activities:				
General Obligation Debt:				
Other Long-term Obligations:				
Drain assessments payable - Bad Axe Drain - Phase II, due in annual installments of \$52,500 plus interest annually at 6.72% through March 1, 2014 (a)	\$ 367,500	\$ (52,500)	\$ 315,000	\$ 52,500
Drain assessments payable - Crumback Drain, due in annual installments of \$6,826 to \$6,827 plus interest annually at 4.75% to 5.00% through March 1, 2013 (a)	40,959	(6,827)	34,132	6,826
\$140,000 land contract for the purchase of land due in annual installments of \$13,216 including interest at a rate of 7.00% through January 15, 2008; a final payment of \$89,285 is due on January 15, 2009	90,336	(6,892)	83,444	83,444
\$100,000 land contract for the purchase of land, due in annual installments of \$10,000 plus interest annually at 3.75% through July 1, 2011	49,862	(9,926)	39,936	10,000
\$142,000 installment purchase contract for DDA Streetscape capital project, due in annual installments of \$17,507 to \$17,995 including interest at 4.00% through October 1, 2011(b)	78,297	(14,330)	63,967	14,949
\$75,000 installment purchase contract for DDA Streetscape capital project, due in annual installments of \$9,246 to \$9,505 including interest at 4.00% through October 1, 2011(b)	41,354	(7,569)	33,785	7,895
Brick Street Assessment installment contract, due in annual installments of \$24,600 plus interest annually at 3.15% to 3.95% through June 1, 2014	172,200	(24,600)	147,600	24,600
Total other debt	840,508	(122,644)	717,864	200,214
Accumulated Fringe Benefits:				
Vested sick leave	112,726	3,869	116,595	-
Total governmental activities	953,234	(118,775)	834,459	200,214

Notes to Financial Statements
June 30, 2008
(Continued)

	Balance June 30, 2007	Additions (Retirements)	Balance June 30, 2008	Due Within One Year
<u>Business type activities:</u>				
County Contractual Obligations:				
\$1,605,000 1996 water supply and sewage disposal bonds - Series B due in annual installments of \$175,000 to \$200,000 plus interest semi-annually at 4.75% through December 1, 2007	200,000	(200,000)	-	-
Less unamortized discount	<u>(1,740)</u>	<u>1,740</u>	<u>-</u>	<u>-</u>
Net debt	198,260	(198,260)	-	-
\$1,900,000 1996 water supply and sewage disposal bonds - Series A due in annual installments of \$175,000 to \$200,000 plus interest semi-annually at 4.125% to 5.000% through December 1, 2015	1,600,000	(50,000)	1,550,000	175,000
Less unamortized discount	<u>(12,087)</u>	<u>1,965</u>	<u>(10,122)</u>	<u>(2,009)</u>
Net debt	1,587,913	(48,035)	1,539,878	172,991
\$6,630,000 2006 sewage disposal bonds - Wastewater Treatment Plant Improvements due in annual installments of \$290,000 to \$380,000 plus interest semi-annually at 1.625% through April 1, 2027	<u>5,703,769</u>	<u>909,355</u> <u>(285,000)</u>	<u>6,328,124</u>	<u>290,000</u>
Total business type activities	<u>7,489,942</u>	<u>378,060</u>	<u>7,868,002</u>	<u>462,991</u>
Total primary government	<u>\$ 8,443,176</u>	<u>\$ 259,285</u>	<u>\$ 8,702,461</u>	<u>\$ 663,205</u>

- (a) The Michigan drain code requires each entity so assessed to pay each assessment installment and interest thereon from its general or contingent fund or to levy ad valorem taxes on all taxable property in the entity for such purposes, subject to applicable charter, statutory and constitutional tax limitations.
- (b) The borrowed funds will be repaid by the DDA with captured taxes on special assessments to the downtown development district. Accordingly, debt service payments are reported in the DDA component unit fund.

Annual debt service requirements to maturity for the above bond obligations, excluding the unamortized discounts are as follows:

Governmental Activities

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 200,214	\$ 39,424	\$ 239,638
2010	117,685	27,652	145,337
2011	118,634	21,631	140,265
2012	120,305	15,590	135,895
2013	83,926	9,316	93,242
2014-2018	<u>77,100</u>	<u>4,500</u>	<u>81,600</u>
	<u><u>\$ 717,864</u></u>	<u><u>\$ 118,113</u></u>	<u><u>\$ 835,977</u></u>

Business Type Activities

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 465,000	\$ 173,988	\$ 638,988
2010	470,000	160,701	630,701
2011	495,000	146,576	641,576
2012	500,000	131,782	631,782
2013	505,000	116,907	621,907
2014-2018	2,205,000	382,941	2,587,941
2019-2023	1,750,000	207,034	1,957,034
2024-2028	<u>1,488,124</u>	<u>60,572</u>	<u>1,548,696</u>
	<u><u>\$ 7,878,124</u></u>	<u><u>\$ 1,380,501</u></u>	<u><u>\$ 9,258,625</u></u>

In addition to the above debt, the Downtown Development Authority owes the State of Michigan \$96,771. This represents the amount of incorrectly captured school taxes for the 1998 through 2003 levies. These amounts will be repaid September 2008.

Note 9 – Property Taxes

The 2007 ad valorem tax levy was based on the following property valuations and millage rates:

Total taxable valuation:	<u>\$ 88,186,710</u>
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Millage rates per \$1,000 of taxable valuation:

	<u>Mills</u>
General Fund	14.74
Parks Fund	1.00
Local Street Fund	0.55
Drain Debt Service Fund	1.09
Sewer Fund	<u>1.18</u>
Total mills	<u><u>18.56</u></u>

Note 10 – Retirement Plans**Defined Benefit Pension Plan****Plan description**

The City contributes to defined benefit pension plans with the Michigan Municipal Employees Retirement System (MERS). All full-time administration, DPW and police employees are eligible to join the plan. The plan became effective August 1, 1999.

The Municipal Employees Retirement System of Michigan (MERS), is an agent multiple-employer, state-wide, public employee pension plan that was created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. Pursuant to Act 220, on August 15, 1996, MERS became an independent public non-profit corporation, which is an instrumentality of the participating municipalities and courts. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. It provides centralized administration and investment of plan assets, but each employer unit is separately experienced rated. MERS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to MERS, 1134 Municipal Way, Lansing, Michigan 48917 or by calling 1-800-767-6377.

Funding Policy

Employees are required to contribute 5% of their annual earnings to the System. The City is required to contribute based on an actuarially determined rate.

Annual pension cost

For 2008, the City's annual pension cost was equal to their required contribution. Actual contributions were made based on the actual payroll paid rather than the estimated payroll used in the actuarial valuation. The required contribution was determined as part of the December 31, 2005 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) investment rate of return of 8%; (b) projected salary increases ranging from 4.5% to 12.90% per year; and (c) 4.5% per year cost of living increases. The actuarial value of plan assets was determined using methods that smooth the effect of short-term volatility in the market value of investments over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll.

Three-year information**Three year trend information**

<u>Year Ending</u>	<u>Annually Required Contribution (ARC)</u>	<u>Percentage of ARC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2008	\$ 176,330	100%	\$ -
6/30/2007	164,166	100%	-
6/30/2006	158,898	100%	-

Note 11 – Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees.

The City participates in the Michigan Municipal League Liability and Property Pool. The maximum insurance coverages are \$14,573,314 for property damage and \$1,000,000 for liability claims.

Note 12 – Joint Ventures

The City is a constituent member of the Bad Axe Fire Protection Association and the Central Huron Ambulance Service Association, which provides fire protection services and emergency ambulance services to the City of Bad Axe. The City has estimated that its percentage of contributions is 45% and 35% to Bad Axe Fire Protection Association and Central Huron Ambulance Service Association, respectively.

The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments of any of the above joint ventures in the near future.

Complete financial statements can be obtained from the administrative offices at the following locations:

Bad Axe Fire Protection Association
420 S. Hanselman
Bad Axe, Michigan 48413

Central Huron Ambulance Service Association
291 W. Soper Road
Bad Axe, Michigan 48413

Note 13 – Reserved Fund Balance

The following is a summary of the reserved fund balances of the governmental funds and discretely presented component units:

<u>Reserved For</u>	<u>Local Street</u>	<u>Brick Street Assessment</u>	<u>Special Revenue</u>	<u>Debt Service</u>
Capital projects	\$ -	\$ 4,535	\$ 28,834	\$ -
Debt service	-	-	-	114,142
Other purposes	153,323	-	275,328	-
Total	<u>\$ 153,323</u>	<u>\$ 4,535</u>	<u>\$ 304,162</u>	<u>\$ 114,142</u>

Note 14 – Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Service agreement	\$ -	\$ 1,500
Special assessments	\$ 159,066	\$ -

Note 15 – Jointly Governed Organization

The City of Bad Axe and the Village of Port Austin are members of the Huron Regional Water Authority (HRWA). The Authority was created in 2002 for the purpose of constructing and operating a water treatment plant in Port Austin and a water pipeline to Bad Axe. The City appoints two of the four members to the governing board. The pipeline became fully operational on January 1, 2006. During the year, the City purchased \$199,273 of water from the Authority and had \$577,472 of costs related to the operations and maintenance and debt payments of the pipeline.

The City has irrevocably pledged the net revenues of its water supply system for the separate facility bond payments. In addition, the City has agreed to make additional payments to the Authority for the operation and maintenance expenses to support the Authority. The City has an accounts payable of \$63,785 to the Authority at June 30, 2008.

Note 16 – Contingent Liabilities

Various claims and lawsuits are pending against the City. The City has sufficient insurance coverage and would only be liable up to \$100,000 on each case settled in the plaintiff's favor. In the opinion of the City's management and legal counsel, the potential loss on all claims and lawsuits will not be significant to the City's financial statements.

The U.S. Environmental Protection Agency (EPA) has assessed the City \$211,000 for alleged misspent water grant funds. The City believes that it spent these funds properly and has appealed the EPA's decision. A final determination has not been made at the time of issuing these financial statements but the City's management stands firm it is not liable for the assessment.

Note 17 – Restatement of Net Assets

As of July 1, 2007, the Library was removed from the City of Bad Axe's control and is now a separate District Area Library outside the scope of the City of Bad Axe. The City is now leasing the land and building to the Bad Axe Area District Library for a nominal fee. The beginning net assets are being adjusted in the governmental activities and component units to reflect the removal of the Library equity and transfer of the land and building from the Library to the governmental activities.

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Component Units</u>
Net assets, beginning of year	\$ 5,123,230	\$ -	\$ 396,061
Land, building and improvements	186,032	-	(186,032)
Library net assets	<u>-</u>	<u>-</u>	<u>(157,473)</u>
Net assets, beginning of year (as restated)	<u>\$ 5,309,262</u>	<u>\$ -</u>	<u>\$ 52,556</u>

Required Supplemental Information

Schedule of Funding Progress

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAAL as a % of Covered Payroll
12/31/2002	1,802,661	2,808,374	1,005,713	64%	1,053,851	95%
12/31/2003	2,114,421	3,699,445	1,585,024	57%	1,005,126	158%
12/31/2004	2,333,359	4,020,710	1,687,351	58%	1,092,742	154%
12/31/2005	2,559,475	4,453,770	1,894,295	57%	1,096,057	173%
12/31/2006	2,820,513	4,766,529	1,946,016	59%	1,139,846	171%
12/31/2007	3,103,496	4,864,873	1,761,377	64%	1,081,939	163%

General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budgetary Comparison
For the Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance Positive (Negative)
Revenues:				
Property taxes	\$ 1,320,055	\$ 1,320,370	\$ 1,319,974	\$ (396)
Licenses and permits	12,000	28,375	30,050	1,675
State sources	355,500	395,819	397,422	1,603
Charges for services	5,000	2,000	3,050	1,050
Fines and forfeitures	7,000	7,000	7,358	358
Interest income	30,000	42,000	41,373	(627)
Rental income	3,900	4,102	4,102	-
Miscellaneous	148,994	186,307	197,325	11,018
Total revenues	1,882,449	1,985,973	2,000,654	14,681
Expenditures:				
General government:				
City council	12,530	14,003	12,814	1,189
Administration	400,035	410,087	396,598	13,489
Assessing	23,810	24,619	24,653	(34)
Elections	4,015	2,871	2,628	243
Buildings and grounds	9,490	9,378	7,806	1,572
City hall	70,635	65,965	62,784	3,181
Total general government	520,515	526,923	507,283	19,640
Public safety:				
Ambulance	8,655	10,386	10,386	-
Police:				
Administration/dispatch	220,090	221,210	210,595	10,615
K-9	6,000	6,000	9,749	(3,749)
Patrol service	429,910	452,637	449,479	3,158
Crossing guard/parking	3,940	3,940	3,796	144
Justice training	1,000	1,000	959	41
Code enforcement	61,550	60,050	59,552	498
Fire	100,000	98,466	98,466	-
Total public safety	831,145	853,689	842,982	10,707
Public works:				
Supervision	40,618	34,840	34,265	575
Parking lots and alleys	24,386	39,260	39,950	(690)
Community service	17,823	23,090	19,425	3,665
Sidewalks	31,935	22,135	15,467	6,668
Building and yard	36,950	33,920	32,608	1,312
Leaves/yard/waste	36,696	43,570	44,878	(1,308)
Street lights	68,000	68,000	63,074	4,926
Total public works	256,408	264,815	249,667	15,148

General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budgetary Comparison
For the Year Ended June 30, 2008
(Continued)

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Economic development: Planning	\$ 28,750	\$ 24,700	\$ 25,317	\$ (617)
Recreation and cultural: Parks and recreation	86,516	81,616	72,638	8,978
Debt service:				
Principal	16,818	16,818	16,818	-
Interest and charges	<u>8,273</u>	<u>8,273</u>	<u>8,258</u>	<u>15</u>
Total debt service	<u>25,091</u>	<u>25,091</u>	<u>25,076</u>	<u>15</u>
Total expenditures	<u>1,748,425</u>	<u>1,776,834</u>	<u>1,722,963</u>	<u>53,871</u>
Excess of revenues over expenditures	134,024	209,139	277,691	68,552
Other financing uses:				
Transfers out	<u>-</u>	<u>(104,000)</u>	<u>(104,000)</u>	<u>-</u>
Excess of revenues over expenditures and other financing uses	134,024	105,139	173,691	68,552
Fund balance, beginning of year	<u>1,218,074</u>	<u>1,218,074</u>	<u>1,218,074</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,352,098</u>	<u>\$ 1,323,213</u>	<u>\$ 1,391,765</u>	<u>\$ 68,552</u>

Major Special Revenue Funds
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budgetary Comparison
For the Year Ended June 30, 2008

	<u>LOCAL STREET</u>			Variance Positive (Negative)
	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	
Revenues:				
Property taxes	\$ 55,350	\$ 47,080	\$ 47,203	\$ 123
State sources	70,979	67,000	70,748	3,748
Interest income	600	1,500	1,817	317
Miscellaneous	-	2,000	1,860	(140)
Total revenues	126,929	117,580	121,628	4,048
Expenditures:				
Public works:				
Surface maintenance	140,295	145,605	153,902	(8,297)
Sweeping	14,793	14,793	12,638	2,155
Drainage	18,650	18,650	20,849	(2,199)
Trees and shrubs	19,271	19,271	16,321	2,950
Grading and dust control	964	964	301	663
Grass and weed control	6,919	6,919	5,215	1,704
Traffic signs/signals	1,846	1,792	1,497	295
Pavement marking	4,069	2,638	1,397	1,241
Snow and ice	25,169	25,890	26,074	(184)
Administration fees	17,120	17,120	17,120	-
Total expenditures	249,096	253,642	255,314	(1,672)
Excess of revenues under expenditures	(122,167)	(136,062)	(133,686)	2,376
Other financing sources:				
Transfers in	180,660	182,000	184,687	2,687
Excess of revenues and other financing sources over expenditures	58,493	45,938	51,001	5,063
Fund balance, beginning of year	102,322	102,322	102,322	-
Fund balance, end of year	<u>\$ 160,815</u>	<u>\$ 148,260</u>	<u>\$ 153,323</u>	<u>\$ 5,063</u>

Major Special Revenue Funds
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budgetary Comparison
For the Year Ended June 30, 2008

BRICK STREET ASSESSMENT

	Original Budget	Amended Budget	Actual	Variance Positive (Negative)
Revenues:				
Special assessments	\$ 31,755	\$ 31,755	\$ 31,755	\$ -
Interest income	525	2,087	2,099	12
Total revenues	32,280	33,842	33,854	12
Expenditures:				
Debt service:				
Principal	24,600	24,600	24,600	-
Interest and charges	6,002	6,002	6,002	-
Total expenditures	30,602	30,602	30,602	-
Excess of revenues over expenditures	1,678	3,240	3,252	12
Fund balance, beginning of year	1,283	1,283	1,283	-
Fund balance, end of year	<u>\$ 2,961</u>	<u>\$ 4,523</u>	<u>\$ 4,535</u>	<u>\$ 12</u>

Other Supplemental Information

SPECIAL REVENUE FUNDS				
	Major Street	County Road Millage	Parks and Recreation	Drug Law Enforcement
Assets				
Cash and cash equivalents	\$ 186,217	\$ 94,818	\$ 50	\$ 5,247
Cash not qualifying as cash equivalents	-	-	14,114	-
Receivables:				
Other governmental units	15,654	-	-	-
Due from other funds	-	-	60,364	-
Prepays	-	-	12	-
Total assets	<u>\$ 201,871</u>	<u>\$ 94,818</u>	<u>\$ 74,540</u>	<u>\$ 5,247</u>
Liabilities and Fund Balance				
Liabilities:				
Accounts payable	\$ 206	\$ -	\$ 5,739	\$ -
Accrued payroll and liabilities	13,308	-	4,668	-
Due to other funds	<u>7,847</u>	<u>-</u>	<u>375</u>	<u>-</u>
Total liabilities	21,361	-	10,782	-
Fund Balance:				
Reserved:				
Capital projects	-	-	-	-
Debt service	-	-	-	-
Other purposes	180,510	94,818	-	-
Unreserved	<u>-</u>	<u>-</u>	<u>63,758</u>	<u>5,247</u>
Total fund balance	<u>180,510</u>	<u>94,818</u>	<u>63,758</u>	<u>5,247</u>
Total liabilities and fund balance	<u>\$ 201,871</u>	<u>\$ 94,818</u>	<u>\$ 74,540</u>	<u>\$ 5,247</u>

**Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2008**

		DEBT SERVICE FUND	
<u>Rental Rehab Grant</u>	<u>Park Improvement</u>	<u>Drain Debt</u>	<u>Total</u>
\$ -	\$ 28,834	\$ 114,090	\$ 429,256
-	-	-	14,114
-	-	-	15,654
-	-	52	60,416
-	-	-	12
<u>\$ -</u>	<u>\$ 28,834</u>	<u>\$ 114,142</u>	<u>\$ 519,452</u>
\$ -	\$ -	\$ -	\$ 5,945
-	-	-	17,976
-	-	-	8,222
<u>-</u>	<u>-</u>	<u>-</u>	<u>32,143</u>
-	28,834	-	28,834
-	-	114,142	114,142
-	-	-	275,328
-	-	-	69,005
<u>-</u>	<u>28,834</u>	<u>114,142</u>	<u>487,309</u>
<u>\$ -</u>	<u>\$ 28,834</u>	<u>\$ 114,142</u>	<u>\$ 519,452</u>

	SPECIAL REVENUE FUNDS			
	Major Street	County Road Millage	Parks and Recreation	Drug Law Enforcement
Revenues:				
Property taxes	\$ -	\$ 85,841	\$ 85,824	\$ -
Federal sources	-	-	5,042	-
State sources	194,335	-	-	-
Charges for services	-	-	46,264	-
Fines and forfeitures	-	-	-	3,581
Interest income	4,402	3,806	1,224	11
Rental income	-	-	7,588	-
Miscellaneous	325	498	54,027	-
Total revenues	199,062	90,145	199,969	3,592
Expenditures:				
Current:				
Public safety	-	-	-	1,333
Public works	154,187	-	-	-
Economic development	-	-	-	-
Recreation and cultural	-	-	216,758	-
Debt service:				
Principal	-	-	-	-
Interest and charges	-	-	-	-
Total expenditures	154,187	-	216,758	1,333
Excess of revenues over (under) expenditures	44,875	90,145	(16,789)	2,259
Other financing uses:				
Transfers out	(74,687)	(110,000)	-	-
Excess of revenues over (under) expenditures and other financing uses	(29,812)	(19,855)	(16,789)	2,259
Fund balances, beginning of year	210,322	114,673	80,547	2,988
Fund balances, end of year	\$ 180,510	\$ 94,818	\$ 63,758	\$ 5,247

Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended June 30, 2008

		DEBT SERVICE FUND	
<u>Rental Rehab Grant</u>	<u>Park Improvement</u>	<u>Drain Debt</u>	<u>Total</u>
\$ -	\$ -	\$ 96,238	\$ 267,903
93,711	-	-	98,753
-	-	-	194,335
-	-	-	46,264
-	-	-	3,581
-	857	2,342	12,642
-	11,288	-	18,876
-	-	-	54,850
<u>93,711</u>	<u>12,145</u>	<u>98,580</u>	<u>697,204</u>
-	-	-	1,333
-	-	-	154,187
93,711	-	-	93,711
-	-	-	216,758
-	-	59,327	59,327
-	-	26,743	26,743
<u>93,711</u>	<u>-</u>	<u>86,070</u>	<u>552,059</u>
-	12,145	12,510	145,145
<u>-</u>	<u>-</u>	<u>-</u>	<u>(184,687)</u>
-	12,145	12,510	(39,542)
-	16,689	101,632	526,851
<u>\$ -</u>	<u>\$ 28,834</u>	<u>\$ 114,142</u>	<u>\$ 487,309</u>

Nonmajor Special Revenue Funds
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budgetary Comparison
For the Year Ended June 30, 2008

	<u>MAJOR STREET</u>			
	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:				
State sources	\$ 196,840	\$ 197,000	\$ 194,335	\$ (2,665)
Interest income	4,000	4,100	4,402	302
Miscellaneous	200	-	325	325
Total revenues	201,040	201,100	199,062	(2,038)
Expenditures:				
Public works:				
Surface maintenance	9,337	4,593	7,081	(2,488)
Sweeping	7,110	8,191	10,426	(2,235)
Drainage	14,587	14,239	12,652	1,587
Trees and shrubs	14,049	6,010	7,173	(1,163)
Grading and dust control	714	714	140	574
Grass and weed control	1,717	1,809	1,510	299
Traffic signs/signals	1,674	1,207	1,026	181
Pavement marking	3,185	3,185	831	2,354
Snow and ice	40,361	37,633	37,975	(342)
Trunkline surface maintenance	1,588	1,588	961	627
Trunkline sweeping	3,756	3,756	3,044	712
Trunkline drainage	5,573	3,573	1,292	2,281
Trunkline trees and shrubs	3,088	3,088	2,566	522
Trunkline grass and weeds	838	838	118	720
Trunkline traffic signs/signals	8,698	5,530	3,381	2,149
Trunkline pavement marking	2,055	1,040	463	577
Trunkline snow and ice	19,280	24,589	24,136	453
Trunkline hauling snow	11,973	22,199	22,238	(39)
Administration fees	17,174	17,174	17,174	-
Total expenditures	166,757	160,956	154,187	6,769
Excess of revenues over expenditures	34,283	40,144	44,875	4,731
Other financing uses:				
Transfers out	(70,660)	(72,000)	(74,687)	(2,687)
Excess of revenues under expenditures and other financing uses	(36,377)	(31,856)	(29,812)	2,044
Fund balance, beginning of year	210,322	210,322	210,322	-
Fund balance, end of year	<u>\$ 173,945</u>	<u>\$ 178,466</u>	<u>\$ 180,510</u>	<u>\$ 2,044</u>

Nonmajor Special Revenue Funds
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budgetary Comparison
For the Year Ended June 30, 2008

	COUNTY ROAD MILLAGE			
	Original Budget	Amended Budget	Actual	Variance Positive (Negative)
Revenues:				
Property taxes	\$ 85,000	\$ 85,000	\$ 85,841	\$ 841
Interest income	4,000	4,000	3,806	(194)
Miscellaneous	-	500	498	(2)
Total revenues	89,000	89,500	90,145	645
Expenditures:				
Public works:				
Road construction	-	-	-	-
Excess of revenues over expenditures	89,000	89,500	90,145	645
Other Financing Uses:				
Transfers out	(110,000)	(110,000)	(110,000)	-
Excess of revenues under expenditures and other financing uses	(21,000)	(20,500)	(19,855)	645
Fund balance, beginning of year	114,673	114,673	114,673	-
Fund balance, end of year	<u>\$ 93,673</u>	<u>\$ 94,173</u>	<u>\$ 94,818</u>	<u>\$ 645</u>

Nonmajor Special Revenue Funds
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budgetary Comparison
For the Year Ended June 30, 2008

PARKS AND RECREATION

	Original Budget	Amended Budget	Actual	Variance Positive (Negative)
Revenues:				
Property taxes	\$ 85,500	\$ 85,500	\$ 85,824	\$ 324
Federal sources	-	5,043	5,042	(1)
State sources	3,598	-	-	-
Charges for services	55,500	46,549	46,264	(285)
Interest income	300	300	1,224	924
Rental income	7,300	7,300	7,588	288
Miscellaneous	20,150	30,620	54,027	23,407
Total revenues	172,348	175,312	199,969	24,657
Expenditures:				
Recreation and cultural:				
Administration	78,270	117,970	116,354	1,616
Day camp	23,750	23,750	22,780	970
Programs/special events	64,970	58,939	77,624	(18,685)
Total expenditures	166,990	200,659	216,758	(16,099)
Excess of revenues over (under) expenditures	5,358	(25,347)	(16,789)	8,558
Fund balance, beginning of year	80,547	80,547	80,547	-
Fund balance, end of year	<u>\$ 85,905</u>	<u>\$ 55,200</u>	<u>\$ 63,758</u>	<u>\$ 8,558</u>

Nonmajor Special Revenue Funds
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budgetary Comparison
For the Year Ended June 30, 2008

DRUG LAW ENFORCEMENT

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:				
Fines and forfeitures	\$ 1,000	\$ 3,528	\$ 3,581	\$ 53
Interest income	10	10	11	1
Total revenues	1,010	3,538	3,592	54
Expenditures:				
Public safety:				
Operating supplies	1,010	976	1,333	(357)
Excess of revenues over expenditures	-	2,562	2,259	(303)
Fund balance, beginning of year	2,988	2,988	2,988	-
Fund balance, end of year	<u>\$ 2,988</u>	<u>\$ 5,550</u>	<u>\$ 5,247</u>	<u>\$ (303)</u>

RENTAL REHAB GRANT

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:				
Federal sources	\$ -	\$ 93,711	\$ 93,711	\$ -
Expenditures:				
Economic development:				
Contractual services	-	93,711	93,711	-
Excess of revenues over expenditures	-	-	-	-
Fund balance, beginning of year	-	-	-	-
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Nonmajor Special Revenue Funds
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budgetary Comparison
For the Year Ended June 30, 2008

PARK IMPROVEMENT

	Original Budget	Amended Budget	Actual	Variance Positive (Negative)
Revenues:				
Interest income	\$ 180	\$ 820	\$ 857	37
Rental income	<u>8,652</u>	<u>11,227</u>	<u>11,288</u>	<u>61</u>
Total revenues	8,832	12,047	12,145	98
Expenditures:				
Recreation and cultural:				
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues over expenditures	8,832	12,047	12,145	98
Fund balance, beginning of year	<u>16,689</u>	<u>16,689</u>	<u>16,689</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 25,521</u></u>	<u><u>\$ 28,736</u></u>	<u><u>\$ 28,834</u></u>	<u><u>\$ 98</u></u>

Nonmajor Debt Service Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budgetary Comparison
For the Year Ended June 30, 2008

DRAIN DEBT

	Original Budget	Amended Budget	Actual	Variance Positive (Negative)
Revenues:				
Property taxes	\$ 93,450	\$ 95,943	\$ 96,238	\$ 295
State sources	8,167	-	-	-
Interest income	1,000	2,400	2,342	(58)
Total revenues	102,617	98,343	98,580	237
Expenditures:				
Drains	8,874	8,874	8,874	-
Principal	52,500	52,500	52,500	-
Interest expense	24,696	24,696	24,696	-
Miscellaneous drain payments	350	-	-	-
Total expenditures	86,420	86,070	86,070	-
Excess of revenues over expenditures	16,197	12,273	12,510	237
Fund balance, beginning of year	101,632	101,632	101,632	-
Fund balance, end of year	<u>\$ 117,829</u>	<u>\$ 113,905</u>	<u>\$ 114,142</u>	<u>\$ 237</u>

Discretely Presented Component Units
Combining Balance Sheet
June 30, 2008

	<u>Economic Development Corporation</u>	<u>Downtown Development Authority</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ -	\$ 66,289	\$ 66,289
Cash not qualifying as cash equivalents	<u>4,286</u>	<u>97,404</u>	<u>101,690</u>
Total assets	<u>\$ 4,286</u>	<u>\$ 163,693</u>	<u>\$ 167,979</u>
Liabilities and Fund Balance			
Liabilities:			
Accounts payable	\$ -	\$ 96,810	\$ 96,810
Fund Balance:			
Unreserved	<u>4,286</u>	<u>66,883</u>	<u>71,169</u>
Total liabilities and fund balance	<u>\$ 4,286</u>	<u>\$ 163,693</u>	<u>\$ 167,979</u>

Discretely Presented Component Units
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended June 30, 2008

	Economic Development Corporation	Downtown Development Authority	Total
Revenues:			
Property taxes	\$ -	\$ 61,488	\$ 61,488
Interest income	<u>158</u>	<u>5,775</u>	<u>5,933</u>
Total revenues	158	67,263	67,421
Expenditures:			
Public works	-	106,825	106,825
Debt service			
Principal	-	21,899	21,899
Interest and charges	<u>-</u>	<u>4,855</u>	<u>4,855</u>
Total expenditures	<u>-</u>	<u>133,579</u>	<u>133,579</u>
Excess of revenues over (under) expenditures	158	(66,316)	(66,158)
Fund balance, beginning of year	<u>4,128</u>	<u>133,199</u>	<u>137,327</u>
Fund balance, end of year	<u><u>\$ 4,286</u></u>	<u><u>\$ 66,883</u></u>	<u><u>\$ 71,169</u></u>

**Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balance of the Discretely Presented
Component Units to the Statement of Activities
Year Ended June 30, 2008**

Net change in fund balances, discretely presented component units	\$ (66,158)
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Decrease in long-term payables	<u>84,771</u>
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Change in net assets, discretely presented component units	<u>\$ 18,613</u>
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Discretely Presented Component Units
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budgetary Comparison
For the Year Ended June 30, 2008

ECONOMIC DEVELOPMENT CORPORATION

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:				
Interest income	\$ -	\$ 159	\$ 158	\$ (1)
Expenditures:				
Economic development:				
Miscellaneous	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues over expenditures	-	159	158	(1)
Fund balance, beginning of year	<u>4,128</u>	<u>4,128</u>	<u>4,128</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 4,128</u></u>	<u><u>\$ 4,287</u></u>	<u><u>\$ 4,286</u></u>	<u><u>\$ (1)</u></u>

Discretely Presented Component Units
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budgetary Comparison
For the Year Ended June 30, 2008

DOWNTOWN DEVELOPMENT AUTHORITY

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:				
Property taxes	\$ 48,500	\$ 59,990	\$ 61,488	\$ 1,498
Interest income	4,500	5,000	5,775	775
Miscellaneous	50	-	-	-
	<u>53,050</u>	<u>64,990</u>	<u>67,263</u>	<u>2,273</u>
Total revenues	53,050	64,990	67,263	2,273
Expenditures:				
Public works:				
Contractual services	25,700	25,700	21,687	4,013
Rent	350	350	-	350
Miscellaneous	245	245	367	(122)
Debt service	26,755	26,755	111,525	(84,770)
	<u>53,050</u>	<u>53,050</u>	<u>133,579</u>	<u>(80,529)</u>
Total expenditures	53,050	53,050	133,579	(80,529)
Excess of revenues over (under) expenditures	-	11,940	(66,316)	(78,256)
Fund balance, beginning of year	133,199	133,199	133,199	-
Fund balance, end of year	<u>\$ 133,199</u>	<u>\$ 145,139</u>	<u>\$ 66,883</u>	<u>\$ (78,256)</u>

Schedule of Drain Assessments Payable - Bad Axe Drain - Phase II
Principal and Interest Obligation as of June 30, 2008

<u>Maturity Date</u>	<u>Principal</u>	<u>Rate</u>	<u>Interest</u>	<u>Total</u>
03/01/2009	\$ 52,500	6.72%	\$ 21,168	\$ 73,668
03/01/2010	52,500	6.72%	17,640	70,140
03/01/2011	52,500	6.72%	14,112	66,612
03/01/2012	52,500	6.72%	10,584	63,084
03/01/2013	52,500	6.72%	7,056	59,556
03/01/2014	52,500	6.72%	3,528	56,028
	<u>\$ 315,000</u>		<u>\$ 74,088</u>	<u>\$ 389,088</u>

**Schedule of Drain Assessments Payable - Crumback Drain
Principal and Interest Obligation as of June 30, 2008**

<u>Maturity Date</u>	<u>Principal</u>	<u>Rate</u>	<u>Interest</u>	<u>Total</u>
03/01/2009	\$ 6,826	4.75%	\$ 1,707	\$ 8,533
03/01/2010	6,827	4.80%	1,365	8,192
03/01/2011	6,826	4.90%	1,024	7,850
03/01/2012	6,827	5.00%	683	7,510
03/01/2013	6,826	5.00%	341	7,167
	<u>\$ 34,132</u>		<u>\$ 5,120</u>	<u>\$ 39,252</u>

**Schedule of Land Contract
Principal and Interest Obligation as of June 30, 2008**

<u>Maturity Date</u>	<u>Principal</u>	<u>Rate</u>	<u>Interest</u>	<u>Total</u>
01/15/2009	<u>\$ 83,444</u>	7.00%	<u>\$ 5,841</u>	<u>\$ 89,285</u>

Schedule of Note Payable - Land
Principal and Interest Obligation as of June 30, 2008

<u>Maturity Date</u>	<u>Principal</u>	<u>Rate</u>	<u>Interest</u>	<u>Total</u>
07/01/2008	\$ 10,000	3.75%	\$ 1,498	\$ 11,498
07/01/2009	10,000	3.75%	1,123	11,123
07/01/2010	10,000	3.75%	747	10,747
07/01/2011	9,936	3.75%	436	10,372
	<u>\$ 39,936</u>		<u>\$ 3,804</u>	<u>\$ 43,740</u>

**Schedule of DDA Streetscape Installment Contract
Principal and Interest Obligation as of June 30, 2008**

<u>Maturity Date</u>	<u>Principal</u>	<u>Rate</u>	<u>Interest</u>	<u>Total</u>
10/01/2008	\$ 14,949	4.00%	\$ 2,558	\$ 17,507
10/01/2009	15,547	4.00%	1,961	17,508
10/01/2010	16,168	4.00%	1,339	17,507
10/01/2011	17,303	4.00%	692	17,995
	<u>\$ 63,967</u>		<u>\$ 6,550</u>	<u>\$ 70,517</u>

**Schedule of DDA Streetscape Installment Contract
Principal and Interest Obligation as of June 30, 2008**

<u>Maturity Date</u>	<u>Principal</u>	<u>Rate</u>	<u>Interest</u>	<u>Total</u>
10/01/2008	\$ 7,895	4.00%	\$ 1,351	\$ 9,246
10/01/2009	8,211	4.00%	1,036	9,247
10/01/2010	8,540	4.00%	707	9,247
10/01/2011	9,139	4.00%	366	9,505
	<u>\$ 33,785</u>		<u>\$ 3,460</u>	<u>\$ 37,245</u>

**Schedule of Brick Street Assessment Installment Contract
Principal and Interest Obligation as of June 30, 2008**

<u>Maturity Date</u>	<u>Principal</u>	<u>Rate</u>	<u>Interest</u>	<u>Total</u>
06/01/2009	\$ 24,600	3.15%	\$ 5,301	\$ 29,901
06/01/2010	24,600	3.35%	4,527	29,127
06/01/2011	24,600	3.55%	3,702	28,302
06/01/2012	24,600	3.70%	2,829	27,429
06/01/2013	24,600	3.85%	1,919	26,519
06/01/2014	24,600	3.95%	972	25,572
	<u>\$ 147,600</u>		<u>\$ 19,250</u>	<u>\$ 166,850</u>

Schedule of Water Supply and Sewage Disposal Bonds - Series A
Issue Date December 1, 1996
Principal and Interest Obligation as of June 30, 2008

<u>Maturity Date</u>	<u>Principal</u>	<u>Rate</u>	<u>Interest</u>	<u>Total</u>
12/01/2008	\$ 175,000	4.850%	\$ 37,700	\$ 212,700
06/01/2009			33,456	33,456
12/01/2009	175,000	4.950%	33,456	208,456
06/01/2010			29,125	29,125
12/01/2010	200,000	5.000%	29,125	229,125
06/01/2011			24,125	24,125
12/01/2011	200,000	5.000%	24,125	224,125
06/01/2012			19,125	19,125
12/01/2012	200,000	5.000%	19,125	219,125
06/01/2013			14,125	14,125
12/01/2013	200,000	5.000%	14,125	214,125
06/01/2014			9,125	9,125
12/01/2014	200,000	5.000%	9,125	209,125
06/01/2015			4,125	4,125
12/01/2015	200,000	4.125%	4,125	204,125
	<u>\$ 1,550,000</u>		<u>\$ 304,112</u>	<u>\$ 1,854,112</u>

Schedule of Sewage Disposal Bonds
2006 Wastewater Treatment Plant Improvements
Issue Date June 22, 2006
Principal and Interest Obligation as of June 30, 2008

<u>Maturity Date</u>	<u>Principal</u>	<u>Rate</u>	<u>Interest</u>	<u>Total</u>
10/01/2008		1.625%	\$ 51,416	\$ 51,416
04/01/2009	\$ 290,000	1.625%	51,416	341,416
10/01/2009		1.625%	49,060	49,060
04/01/2010	295,000	1.625%	49,060	344,060
10/01/2010		1.625%	46,663	46,663
04/01/2011	295,000	1.625%	46,663	341,663
10/01/2011		1.625%	44,266	44,266
04/01/2012	300,000	1.625%	44,266	344,266
10/01/2012		1.625%	41,829	41,829
04/01/2013	305,000	1.625%	41,828	346,828
10/01/2013		1.625%	39,350	39,350
04/01/2014	310,000	1.625%	39,350	349,350
10/01/2014		1.625%	36,832	36,832
04/01/2015	315,000	1.625%	36,832	351,832
10/01/2015		1.625%	34,272	34,272
04/01/2016	320,000	1.625%	34,272	354,272
10/01/2016		1.625%	31,672	31,672
04/01/2017	325,000	1.625%	31,672	356,672
10/01/2017		1.625%	29,032	29,032
04/01/2018	335,000	1.625%	29,032	364,032
10/01/2018		1.625%	26,310	26,310
04/01/2019	340,000	1.625%	26,310	366,310
10/01/2019		1.625%	23,547	23,547
04/01/2020	345,000	1.625%	23,547	368,547
10/01/2020		1.625%	20,744	20,744
04/01/2021	350,000	1.625%	20,744	370,744
10/01/2021		1.625%	17,900	17,900
04/01/2022	355,000	1.625%	17,900	372,900
10/01/2022		1.625%	15,016	15,016
04/01/2023	360,000	1.625%	15,016	375,016
10/01/2023		1.625%	12,091	12,091
04/01/2024	365,000	1.625%	12,091	377,091
10/01/2024		1.625%	9,125	9,125
04/01/2025	375,000	1.625%	9,125	384,125
10/01/2025		1.625%	6,079	6,079
04/01/2026	380,000	1.625%	6,079	386,079
10/01/2026		1.625%	2,991	2,991
04/01/2027	368,124	1.625%	2,991	371,115
	<u>\$ 6,328,124</u>		<u>\$ 1,076,389</u>	<u>\$ 7,404,513</u>

HYZER, HILL, KUZAK & CO., P.C.

Certified Public Accountants

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Phone: (989) 269-9541 • FAX: (989) 269-6777

Bruce Hill
Donald Kuzak
Michael Doerr

October 24, 2008

City Manager and Finance Committee
City of Bad Axe
Bad Axe, MI 48413

In planning and performing our audit of the financial statements of the City of Bad Axe (City) as of and for the year ended June 30, 2008, in accordance with U.S. generally accepted auditing standards. We considered the City of Bad Axe's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A deficiency in design exists when a control necessary to meet the control objective is missing, or when an existing control is not properly designed so that even if the control operates as designed, the control objective is not always met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. We consider the following significant deficiencies to be material weaknesses:

Preparation of Financial Statements

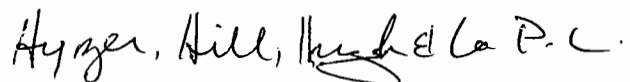
In conjunction with our audit, we have proposed audit adjustments and been contracted to prepare the financial statements and related disclosures based on the information provided to us by Management. We would like to stress that this service is allowable under AICPA ethics guidelines and may be the most efficient and effective method for preparation of the City's financial statements. However, if at any point in the audit we as auditors are part of the City's control system for producing reliable financial statements, auditing standards indicate that the City has a control deficiency. The proposal of audit adjustments and preparation of financial statements and disclosures, even from information provided by Management, meets this definition and is, therefore, a control deficiency.

Other Comments

The water fund holds certificates of deposits issued by banks located outside of Michigan. Michigan investment statutes do not allow these types of investments. As these certificates of deposits mature, the Treasurer should invest these funds in a manner authorized by State statutes.

This report is intended solely for the information and use of the City Board, management and others within the City and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in black ink, appearing to read "Hyzer, Hill, Kuzak & Co. P.C.", written in a cursive style.

Hyzer, Hill, Kuzak & Co., P.C.